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ADMINISTRATIVE AND OPERATIONAL SUPPORT COSTS REIMBURSED TO UNFPA

REVISION OF UNFPA FINANCIAL REGULATIONS

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the reports of the Executive Director of the United Nations Population Fund on administrative and operational support costs reimbursed to UNFPA (DP/FPA/2000/2) and on the revision of the financial regulations (DP/FPA/2000/3). During its consideration of the issues, the Committee met with representatives of the Executive Director who provided additional information.

Administrative and operational support costs reimbursed to UNFPA

2. As indicated in the first paragraph of document DP/FPA/2000/2, the Executive Director's report on administrative and operational support costs reimbursed to UNFPA is submitted pursuant to Executive Board decision 98/22. In its decision, the Executive Board accepted, as an interim measure, the proposed increase in administrative and operational support costs (AOS)

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from 5 per cent to 7.5 per cent, with the proviso that the Executive Director undertake a study to quantify the level of charges for AOS and report back to the Executive Board for a final decision on the AOS rate. The report addresses the issue of the adequate level of cost recovery for administrative and other operational support services provided by UNFPA in the execution of projects funded from co-financing trust funds (formerly designated as multi-bilateral resources). In addition to a managerial support services recovery rate of 5 per cent charged to all trust-fund projects, UNFPA recovers 7.5 per cent of AOS costs when the Fund also acts as the executing agency of the projects funded from co-financing trust funds (DP/FPA/2000/2, paras. 2 and 3).

3. The Advisory Committee notes from paragraph 11 of the report that "it is UNFPA's aim to develop and maintain a simple and transparent approach to identifying and quantifying the activities or services that give rise to support costs". Paragraph 14 and table 1 of the report describe the administrative and operational support services provided by headquarters units and field offices to country projects funded from co-financing trust funds when UNFPA itself executes such projects. The Committee was provided, upon request, with detailed information on the workload-analysis data for the country offices that participated in the survey.

4. As indicated in paragraph 16 of the report, the survey and workload analysis showed that the cost of project execution for UNFPA is approximately 15 per cent to 18 per cent for country projects, depending on the complexity and substantive nature of the project, as well as the size of the country office. The Committee notes that the workload study did not include an allocation of indirect "fixed" costs such as office space, utilities, information technology, equipment and organizational administration. The "unrecovered", or balance of, administrative and operational support costs incurred by UNFPA, as an executing agency, would be absorbed by the Fund's biennial support budget (DP/FPA/2000/2, paras. 16 and 17). The Committee recalls that resources from trust funds are a relatively small portion of the total resources of the Fund and that UNFPA execution has also represented a small portion of the total project execution funded from co-financing trust funds; therefore, the Committee agrees with the view of the Executive Director that regular resources would be subsidizing activities funded from co-financing trust funds in a relatively small manner (see DP/FPA/1999/11, para. 4 and A/53/5/ADD.7, schedule 6).

5. Under the circumstances, taking into account the tripartite principles underlying the support-cost arrangements and the spirit of partnership of co-financing trust-fund activities, mentioned in paragraph 20 of the report, the Advisory Committee agrees that UNFPA's current recovery rate of 7.5 per cent for AOS costs is a reasonable proportion of the total AOS costs. Therefore, the Committee recommends that the Executive Board endorse the standard rate of 7.5 per cent for reimbursement of AOS costs for UNFPA execution of country projects funded from co-financing trust funds and that the matter be kept under review.

Revision of the UNFPA financial regulations

6. As indicated in the first paragraph of the report of the Executive Director, revisions to the existing UNFPA financial regulations are submitted for the approval of the Executive Board, as a result of an overall review of the Fund's financial regulations which is part of the development of a comprehensive UNFPA policies and procedures manual. The Advisory Committee notes that the presentation of the report facilitates the identification of revisions and additions to the text; however, observations and comments explaining the reasons for the proposed changes to each regulation are not presented in the report.

7. The Advisory Committee notes that, under regulation 2.1, the Executive Director proposes revisions and new definitions to various main entities involved in activities of UNFPA. These include changes to the definition of terms such as "executing agency", "implementing agency", "intercountry" and "contribution". The Committee also notes that, in other instances, concepts that have not been defined are introduced in the regulations, such as "material contribution" under regulation 4.11. The Committee notes that some of the proposed changes are inconsistent as compared with the definition proposed by the Administrator of UNDP in document DP/2000/4.

8. The Advisory Committee recommends that, before changes are introduced in the terminology of the financial regulations and rules, care should be taken to ensure that the proposed terminology is consistent with the agreement to harmonize the budget presentation of United Nations funds and programmes, in particular UNDP and UNICEF. The Committee believes that a standard nomenclature of budgetary and financial terms should be followed throughout the United Nations system and that organizations should agree on the proposed new terms before their introduction. Upon inquiry, the Committee was informed that the proposed new terms and definitions in the regulations were not submitted to the Consultative Committee on Administrative Questions (CCAQ) for review. The Advisory Committee recalls that organizations have submitted new terms and definitions to the CCAQ for review, as well as proposed amendments to the financial regulations of the organizations prior to submissions to their governing bodies. This procedure was endorsed by the Committee (see DP/1997/2, E/ICEF/1997/AB/L.3 and DP/1997/10, E/ICEF/1997/AB/L.6).

9. The Advisory Committee had serious difficulties understanding the reasons for the introduction of substantive changes to regulation 17.2. The Committee recalls that, for the biennium 1996-1997, the Committee noted with concern that the Board of Auditors had once again qualified its opinion on the UNFPA financial statements, as a result of the lack of receipt of audit certificates from Governments and non-governmental executing and implementing agencies for programme expenditures totalling $83.1 million. The Committee had understood that the primary responsibility had been shifted to the field offices, which would be required to

establish annual audit plans, including the timing of the receipt of audit reports and a review of their quality. The Committee recommended that UNFPA headquarters carefully monitor the implementation of the new strategy (A/53/513, para. 73). The Committee recommends that the Executive Board does not take action on the proposal until such time when the Executive Director has prepared a policy paper that would explain the experience in implementing the new strategy and the reasons that have prompted the Executive Director to propose changes in the periodicity of the submission of audit reports.

10. In the light of the above observations, the Committee recommends that the Executive Director submit again her proposed amendments to the UNFPA financial regulations after consideration of policies and mandates by the Executive Board. The Committee also recommends that the report be resubmitted in a format that would contain, in addition to a format that permits the easy identification of the proposed changes, precise and succinct explanations indicating the reasons for the proposed changes to each regulation.

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